# Statement of Gary Matteson
# Before The FCA Public Meeting on
# Farm Credit Scope and Eligibility
# June 26, 2003
# McLean, Virginia

My name is Gary Matteson. With my wife and three sons, I operate a greenhouse cut flower farm operation in Epsom, New Hampshire. We market our production from our farm to the Boston Flower Exchange. My farm operation is a small farm under FCA definitions.

I am testifying on behalf of the CoBank-Northeast Farm Credit Regional Council. The CoBank – Northeast Farm Credit Regional Council coordinates public policy for five Farm Credit organizations that serve agriculture in an eight state Northeast region– First Pioneer Farm Credit, Farm Credit of Western New York, Farm Credit of Maine, Yankee Farm Credit and CoBank. The Farm Credit institutions that serve the Northeast have a strong commitment to agriculture and to supporting efforts to enhance the quality of life in rural America.

I serve on the Board of Directors of First Pioneer Farm Credit, which provides $1.6 billion to over 9,400 customers in a region that encompasses all or part of six states. I also serve on the Board of Directors of the Farm Credit Council, the Board of Directors of the Boston Flower Exchange, on the New Hampshire Rural Development Council, and I am active in the New Hampshire Farm Bureau.

I appreciate the opportunity to testify on regulations governing eligibility and scope of financing for farmers, ranchers, and aquatic harvesters. My recommendations address the regulatory treatment of part-time farmers and lending for farmers' other credit needs. We respectfully urge the FCA Board to take the following actions:

1. Farm Credit System boards should have the flexibility to determine how best to serve agriculture and rural areas. Farm Credit boards and customer service councils in the Northeast include individuals that are part-time farmers and other individuals that have significant off-farm income. Being made up of farmers from the area served, an Association's board of directors is elected because they understand the local agricultural environment and they can best determine lending parameters to meet the credit needs of part-time farmers as one of many components of the overall rural economy.

2. Eliminate FCA restrictions on the scope of lending for part-time farmers. Removal of these restrictions will take away the unintended consequence of hindering the service we can provide to the young, beginning and small farmer market, since many start out as part-time farmers. In both the preamble of the Farm Credit Act and the policy and objectives of the Farm Credit Act references are made to "credit in rural areas" and "flexible flow of money to rural areas." Absent a specific directive from Congress to restrict lending, it is appropriate and beneficial to allow greater flexibility for Farm Credit institutions to meet the needs of credit in rural areas.

USDA farm numbers illustrate the importance of part-time farmers in the Northeast. In our region there are over 73 thousand farms. Of this number nearly 67 thousand have annual farm sales of less than $250,000 and over 56 thousand or 78% have annual sales of less than $50,000. It is important that Farm Credit be able to effectively serve all segments of the agricultural industry in the Northeast.

**Northeast Region**
**Farm Numbers and Value of Annual Sales of Farm Products**

| | All Farms | Less than $50,000 | Percent | $50,000 to $249,999 | Percent | $250,000 to $499,999 | Percent | $500,000 to $999,999 | Percent | $1,000,000 or more | Percent |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Connecticut | 2,784 | 2,168 | 77.9% | 337 | 12.1% | 138 | 5.0% | 56 | 2.0% | 85 | 3.1% |
| Maine | 5,579 | 4,408 | 79.0% | 838 | 15.0% | 167 | 3.0% | 107 | 1.9% | 59 | 1.1% |
| Massachusetts | 7,574 | 6,338 | 83.7% | 819 | 10.8% | 243 | 3.2% | 112 | 1.5% | 62 | 0.8% |
| New Hampshire | 3,984 | 3,665 | 92.0% | 230 | 5.8% | 61 | 1.5% | 17 | 0.4% | 11 | 0.3% |
| New Jersey | 9,158 | 7,800 | 85.2% | 815 | 8.9% | 237 | 2.6% | 162 | 1.8% | 144 | 1.6% |
| New York | 37,186 | 27,345 | 73.5% | 6,882 | 18.5% | 1,787 | 4.8% | 616 | 1.7% | 556 | 1.5% |
| Rhode Island | 718 | 569 | 79.2% | 98 | 13.6% | 31 | 4.3% | 12 | 1.7% | 8 | 1.1% |
| Vermont | 6,099 | 4,599 | 75.4% | 997 | 16.3% | 227 | 3.7% | 190 | 3.1% | 86 | 1.4% |
| Northeast District | 73,082 | 56,892 | 77.8% | 11,016 | 15.1% | 2,891 | 4.0% | 1,272 | 1.7% | 1,011 | 1.4% |

Data from the Agricultural Economic Land Ownership Survey, USDA

There are a number of important reasons to allow greater flexibility and eliminate unnecessary regulatory restrictions on lending to part-time farmers:

- Part-time farms help maintain the critical mass necessary for the agricultural infrastructure (e.g., farm equipment dealers, large animal veterinarians, feed nutritionists, and cooperative extension). Declining infrastructure is a major concern to the Northeast agricultural community. Ultimately, Farm Credit's ability to effectively serve the credit needs of part-time farmers is essential to the agricultural infrastructure that full-time farmers depend upon.

- There is a tremendous variety of new business strategies that farmers employ as they develop retail sales strategies, niche markets, or other approaches that seek to obtain a greater share of the consumer food dollar. Farm Credit needs to be able to fully support these diverse approaches to profitability in agricultural production.

- Non-farm income is important for the survival of thousands of farmers in our region. Most young farmers start out as part-time farmers while they build enough equity and the necessary scale of activity to become full-time operations. In the Northeast, not being able to finance the full credit needs of these part-time farmers hinders our ability to perform our legislated mission of serving the credit needs of agriculture. The current regulatory interpretations also complicate how part-time farmers handle family needs—such as credit for a home, an automobile, or college educations.

- In many areas of the Northeast, commercial banks have reduced or eliminated agricultural lending. Part-time and full-time farmers need a provider of financial services that has expertise in agriculture, and the willingness to serve that market in good times and bad.

- We anticipate a continued trend toward a bi-modal structure of agriculture in the Northeast, where a high percentage of total production will come from fewer large farms, while the number of small part-time farms increases. This structural shift of agricultural capacity necessitates an alteration of Farm Credit's lending abilities to reflect the needs of our local service area.

- The transition to agriculture from other occupations requires a stable and well defined banking relationship. In virtually all cases where individuals shift occupations there is a period of part-time farm status. With the current regulatory uncertainty, Farm Credit cannot say what level of loan funds can be provided. To tell a borrower that under FCA regulations we can only provide "...conservative credit to less than full-time farmers…" (12 CFR 613.3005) serves to confuse the situation. This lack of certainty has frustrated potential borrowers who desire agricultural financing. Potential borrowers are concerned that an unanticipated change in their business or any deviation from their business plan will result in a termination of the lending relationship. We cannot confidently say otherwise. We must be able to say that we can finance the ongoing needs of a growing business in order to serve as a reliable lender to the rural economy.

- Many of First Pioneer's farms engage in related entrepreneurial ventures. This activity can help support the farm as well as the rural economy. Activities may include a machinery business, retail operations, repair businesses, entertainment venues, tourism, and recreational facilities. Ironically, under current regulations as these alternative income sources become successful, First Pioneer's ability to provide financing is restricted. Borrowers are concerned that further expansion will restrict or terminate their lending relationship with Farm Credit.

Over the past few months, I have been helping to organize a conference on rural development sponsored by the Federal Reserve Bank of Boston's New England Community Development Advisory Council and the New Hampshire Rural Development Council that will be held in New Hampshire on July 21st. A study paper (unpublished) that will be presented at the conference will illustrate an interesting analysis as it relates to the future of agriculture in Northeast areas that are becoming suburbanized. As suburbanization changes the character of rural communities, it also provides new opportunities for agricultural producers.

Agriculture in the suburbanized area typically shifts from a more commodity-based sector to higher value specialty crops, and counter intuitively, the overall value of agricultural production increases. New market opportunities become available for greenhouse and nursery products, retail operations, agri-tourism and other non-traditional farm enterprises. Many of these businesses that arise to take advantage of the suburban market start as part-time operations, yet they represent the future of the agriculture industry in the area and contribute extensively to the farm economy and agricultural infrastructure. To fully carry out our mission Farm Credit must be able to effectively serve these operations and the changing nature of agriculture.

In conclusion, the ability of Farm Credit to finance the non-farm needs of part-time farmers within parameters determined by the local Association boards will enable Farm Credit to more adequately fulfill the Congressional objective of providing a sufficient and flexible flow of sound credit into rural areas.

On behalf of the CoBank – Northeast Farm Credit Regional Council, I appreciate the opportunity to testify. In addition to the recommendations included in this statement, we fully support the recommendations being submitted by the Farm Credit Council.

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